

# Senate Study Bill 1317

SENATE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON BOLKCOM)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

## A BILL FOR

1 An Act relating to the individual income tax by providing for  
2 reduced tax rates, the elimination of federal deductibility,  
3 increasing the credits for elderly and blind individuals,  
4 increasing the amount of the earned income tax credit, and  
5 adjusting the eligibility for the child and dependent care tax  
6 credit and early childhood development tax credit and  
7 including a retroactive applicability date provision.  
8 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
9 TLSB 2673XC 83  
10 tw/mg:sc/14

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1 1 Section 1. Section 422.4, subsection 1, paragraphs b and  
1 2 c, Code 2009, are amended to read as follows:  
1 3 b. "Cumulative inflation factor" means the product of the  
1 4 annual inflation factor for the ~~1988~~ 2009 calendar year and  
1 5 all annual inflation factors for subsequent calendar years as  
1 6 determined pursuant to this subsection. The cumulative  
1 7 inflation factor applies to all tax years beginning on or  
1 8 after January 1 of the calendar year for which the latest  
1 9 annual inflation factor has been determined.  
1 10 c. The annual inflation factor for the ~~1988~~ 2009 calendar  
1 11 year is one hundred percent.  
1 12 Sec. 2. Section 422.4, subsection 16, Code 2009, is  
1 13 amended to read as follows:  
1 14 16. The words "taxable income" mean the net income as  
1 15 defined in section 422.7 minus the deductions allowed by  
1 16 section 422.9, in the case of individuals; in the case of  
1 17 estates or trusts, the words "taxable income" mean the taxable  
1 18 income (without a deduction for personal exemption) as  
1 19 computed for federal income tax purposes under the Internal  
1 20 Revenue Code, but with the adjustments specified in section  
1 21 422.7 plus the Iowa income tax deducted in computing the  
1 22 federal taxable income ~~and minus federal income taxes as~~  
~~1 23 provided in section 422.9.~~  
1 24 Sec. 3. Section 422.5, subsection 1, paragraphs a through  
1 25 i, Code 2009, are amended to read as follows:  
1 26 For tax years beginning  
1 27 in the calendar year:  
1 28 2009 2010 and  
1 29 subsequent  
1 30 calendar years  
1 31 a. On all taxable income from  
1 32 zero through one thousand ~~four~~  
~~1 33 hundred seven dollars, thirty-six~~  
~~1 34 hundredths of one percent.:~~ ..... 0.30% 0.31%  
2 1 b. On all taxable income  
2 2 exceeding one thousand ~~four hundred~~  
2 3 ~~seven~~ eight hundred fourteen  
2 4 ~~dollars, seventy-two hundredths of~~  
~~2 5 one percent.:~~ ..... 0.59% 0.60%  
2 6 c. On all taxable income  
2 7 exceeding two thousand ~~eight hundred~~  
2 8 ~~fourteen~~ four five thousand six hundred  
2 9 ~~twenty-eight~~ eight ~~dollars,~~  
2 10 ~~two and forty-three hundredths~~  
2 11 ~~percent.:~~ ..... 1.95% 2.00%  
2 12  
2 13 d. On all taxable income

2 14 exceeding four ~~five~~ thousand ~~six~~  
2 15 ~~hundred twenty-eight~~ dollars but  
2 16 not exceeding ~~nine~~ ~~twelve~~ thousand  
2 17 ~~six hundred sixty-three~~ dollars,  
2 18 ~~four and one-half~~ percent.: ..... 4.18% 4.28%  
2 19 e. On all taxable income  
2 20 exceeding ~~nine~~ ~~twelve~~ thousand  
2 21 ~~six hundred sixty-three~~ dollars but  
2 22 not exceeding ~~fifteen~~ ~~twenty-one~~  
2 23 thousand ~~one hundred five~~ dollars,  
2 24 ~~six and twelve~~ hundredths  
2 25 percent.: ..... 5.42% 5.56%  
2 26 f. On all taxable income  
2 27 exceeding ~~fifteen~~ ~~twenty-one~~  
2 28 thousand ~~one hundred five~~ dollars  
2 29 but not exceeding ~~twenty~~ ~~twenty-eight~~  
2 30 thousand ~~one hundred forty~~ dollars,  
2 31 ~~six and forty-eight~~ hundredths  
2 32 percent.: ..... 5.42% 5.56%  
2 33 g. On all taxable income  
2 34 exceeding ~~twenty~~ ~~twenty-eight~~  
2 35 thousand ~~one hundred forty~~ dollars  
3 1 but not exceeding ~~thirty~~ ~~forty-two~~  
3 2 thousand ~~two hundred ten~~ dollars,  
3 3 ~~six and eight-tenths~~ percent.: ..... 5.73% 5.87%  
3 4 h. On all taxable income  
3 5 exceeding ~~thirty~~ ~~forty-two~~ thousand  
3 6 ~~two hundred ten~~ dollars but not  
3 7 exceeding ~~forty-five~~ ~~sixty-three~~  
3 8 thousand ~~three hundred fifteen~~  
3 9 dollars, ~~seven and ninety-two~~  
3 10 hundredths percent.: ..... 6.16% 6.30%  
3 11 i. On all taxable income  
3 12 exceeding ~~forty-five~~ ~~sixty-three~~  
3 13 thousand ~~three hundred fifteen~~  
3 14 dollars, ~~eight and ninety-eight~~  
3 15 hundredths percent.: ..... 6.98% 6.98%  
3 16 Sec. 4. Section 422.9, subsection 2, paragraph b, Code  
3 17 2009, is amended to read as follows:  
3 18 b. ~~Add the amount of federal income taxes paid or accrued,~~  
3 19 ~~as the case may be, during the tax year and subtract any~~  
3 20 ~~federal income tax refunds received during the tax year. Add~~  
3 21 ~~the amount of federal income taxes paid in a tax year~~  
3 22 ~~beginning on or after January 1, 2009, but before January 1,~~  
3 23 ~~2010, to the extent payment is for a tax year beginning prior~~  
3 24 ~~to January 1, 2009. Subtract the amount of federal income tax~~  
3 25 ~~refunds received in a tax year beginning on or after January~~  
3 26 ~~1, 2009, but before January 1, 2010, to the extent that the~~  
3 27 ~~federal income tax was deducted on an Iowa individual income~~  
3 28 ~~tax return for a tax year beginning prior to January 1, 2009.~~  
3 29 Where married persons, who have filed a joint federal income  
3 30 tax return, file separately, such total shall be divided  
3 31 between them according to the portion of the total paid or  
3 32 accrued, as the case may be, by each. Federal income taxes  
3 33 paid for a tax year in which an Iowa return was not required  
3 34 to be filed shall not be added and federal income tax refunds  
3 35 received from a tax year in which an Iowa return was not  
4 1 required to be filed shall not be subtracted.  
4 2 Sec. 5. Section 422.12, subsection 1, paragraphs d and e,  
4 3 Code 2009, are amended to read as follows:  
4 4 d. For a single individual, husband, wife, or head of  
4 5 household, an additional exemption of ~~twenty~~ ~~forty~~ dollars for  
4 6 each of said individuals who has attained the age of  
4 7 sixty-five years before the close of the tax year or on the  
4 8 first day following the end of the tax year.  
4 9 e. For a single individual, husband, wife, or head of  
4 10 household, an additional exemption of ~~twenty~~ ~~forty~~ dollars for  
4 11 each of said individuals who is blind at the close of the tax  
4 12 year. For the purposes of this paragraph, an individual is  
4 13 blind only if the individual's central visual acuity does not  
4 14 exceed twenty-two hundredths in the better eye with correcting  
4 15 lenses, or if the individual's visual acuity is greater than  
4 16 twenty-two hundredths but is accompanied by a limitation in  
4 17 the fields of vision such that the widest diameter of the  
4 18 visual field subtends an angle no greater than twenty degrees.  
4 19 Sec. 6. Section 422.12B, subsection 1, Code 2009, is  
4 20 amended to read as follows:  
4 21 1. The taxes imposed under this division less the credits  
4 22 allowed under section 422.12 shall be reduced by an earned  
4 23 income credit equal to ~~seven~~ ~~eight~~ percent of the federal  
4 24 earned income credit provided in section 32 of the Internal

4 25 Revenue Code. Any credit in excess of the tax liability is  
4 26 refundable.

4 27 Sec. 7. Section 422.12C, subsection 1, Code 2009, is  
4 28 amended to read as follows:

4 29 1. a. The taxes imposed under this division, less the  
4 30 amounts of nonrefundable credits allowed under this division,  
4 31 shall be reduced by a child and dependent care credit equal to  
4 32 the following percentages of the federal child and dependent  
4 33 care credit provided in section 21 of the Internal Revenue  
4 34 Code:

4 35 ~~a.~~ (1) For a taxpayer with net income of less than ten  
5 1 thousand dollars, ~~seventy-five~~ eighty percent.

5 2 ~~b.~~ (2) For a taxpayer with net income of ten thousand  
5 3 dollars or more but less than twenty thousand dollars,  
5 4 ~~sixty-five~~ seventy percent.

5 5 ~~c.~~ (3) For a taxpayer with net income of twenty thousand  
5 6 dollars or more but less than twenty-five thousand dollars,  
5 7 ~~fifty-five~~ sixty percent.

5 8 ~~d.~~ (4) For a taxpayer with net income of twenty-five  
5 9 thousand dollars or more but less than thirty-five thousand  
5 10 dollars, ~~fifty~~ fifty-five percent.

5 11 ~~e.~~ (5) For a taxpayer with net income of thirty-five  
5 12 thousand dollars or more but less than forty thousand dollars,  
5 13 ~~forty~~ forty-five percent.

5 14 ~~f.~~ (6) For a taxpayer with net income of forty thousand  
5 15 dollars or more but less than forty-five thousand dollars,  
5 16 ~~thirty~~ thirty-five percent.

5 17 ~~g.~~ (7) For a taxpayer with net income of forty-five  
5 18 thousand dollars or more, ~~zero~~ but less than fifty thousand  
5 19 dollars, thirty percent.

5 20 (8) For a taxpayer with net income of fifty thousand  
5 21 dollars or more, zero percent.

5 22 ~~b.~~ (1) For the tax year beginning in the 2010 calendar  
5 23 year and for each subsequent tax year, the dollar amounts set  
5 24 forth in paragraph "a", subparagraphs (1) through (8), shall  
5 25 be multiplied by the cumulative adjustment factor for that tax  
5 26 year. "Cumulative adjustment factor" means the product of the  
5 27 annual adjustment factor for the 2009 tax year and all annual  
5 28 adjustment factors for subsequent tax years. The cumulative  
5 29 adjustment factor applies to the tax year beginning in the  
5 30 calendar year for which the latest annual adjustment factor  
5 31 has been determined.

5 32 (2) The annual adjustment factor for the 2009 tax year is  
5 33 one hundred percent. For each subsequent tax year, the annual  
5 34 adjustment factor equals the annual inflation factor for the  
5 35 calendar year, in which the tax year begins, as computed in  
6 1 section 422.4 for purposes of the individual income tax.

6 2 (3) The director shall determine for the 2010 tax year and  
6 3 each subsequent tax year the annual and cumulative adjustment  
6 4 factor for that tax year. The annual and cumulative  
6 5 adjustment factors determined by the director are not rules as  
6 6 defined in section 17A.2, subsection 11.

6 7 Sec. 8. Section 422.12C, subsection 2, unnumbered  
6 8 paragraph 1, Code 2009, is amended to read as follows:

6 9 The taxes imposed under this division, less the amounts of  
6 10 nonrefundable credits allowed under this division, may be  
6 11 reduced by an early childhood development tax credit equal to  
6 12 twenty-five percent of the first one thousand dollars which  
6 13 the taxpayer has paid to others for each dependent, as defined  
6 14 in the Internal Revenue Code, ages three through five for  
6 15 early childhood development expenses. In determining the  
6 16 amount of early childhood development expenses for the tax  
6 17 year beginning in the 2006 calendar year only, such expenses  
6 18 paid during November and December of the previous tax year  
6 19 shall be considered paid in the tax year for which the tax  
6 20 credit is claimed. This credit is available to a taxpayer  
6 21 whose net income is less than ~~forty-five~~ fifty thousand  
6 22 dollars. If the early childhood development tax credit is  
6 23 claimed for a tax year, the taxpayer and the taxpayer's spouse  
6 24 shall not claim the child and dependent care credit under  
6 25 subsection 1. As used in this subsection, "early childhood  
6 26 development expenses" means services provided to the dependent  
6 27 by a preschool, as defined in section 237A.1, materials, and  
6 28 other activities as follows:

6 29 Sec. 9. Section 422.21, unnumbered paragraph 5, Code 2009,  
6 30 is amended to read as follows:

6 31 The director shall determine for the ~~1989~~ 2010 and each  
6 32 subsequent calendar year the annual and cumulative inflation  
6 33 factors for each calendar year to be applied to tax years  
6 34 beginning on or after January 1 of that calendar year. The  
6 35 director shall compute the new dollar amounts as specified to

7 1 be adjusted in section 422.5 by the latest cumulative  
7 2 inflation factor and round off the result to the nearest one  
7 3 dollar. The annual and cumulative inflation factors  
7 4 determined by the director are not rules as defined in section  
7 5 17A.2, subsection 11. The director shall determine for the  
7 6 1990 calendar year and each subsequent calendar year the  
7 7 annual and cumulative standard deduction factors to be applied  
7 8 to tax years beginning on or after January 1 of that calendar  
7 9 year. The director shall compute the new dollar amounts of  
7 10 the standard deductions specified in section 422.9, subsection  
7 11 1, by the latest cumulative standard deduction factor and  
7 12 round off the result to the nearest ten dollars. The annual  
7 13 and cumulative standard deduction factors determined by the  
7 14 director are not rules as defined in section 17A.2, subsection  
7 15 11.

7 16 Sec. 10. RETROACTIVE APPLICABILITY. This Act applies  
7 17 retroactively to January 1, 2009, for tax years beginning on  
7 18 or after that date.

#### 7 19 EXPLANATION

7 20 This bill makes the following changes to the individual  
7 21 income tax: (1) changes the tax rate on each of the current  
7 22 income tax brackets for tax years 2009 and 2010 and subsequent  
7 23 years; (2) eliminates the ability to deduct federal income  
7 24 taxes paid and the requirement to include federal tax refunds;  
7 25 (3) raises the tax credit for blind individuals and the tax  
7 26 credit for elderly individuals from \$20 to \$40; (4) increases  
7 27 the amount of the earned income tax credit that may be claimed  
7 28 from 7 percent to 8 percent of the amount of the federal  
7 29 credit; and (5) adjusts the child and dependent care tax  
7 30 credit eligibility by indexing the income thresholds to  
7 31 inflation, increasing by 5 percentage points the amount of the  
7 32 federal tax credit that each income level may claim, and  
7 33 creating a new threshold level for taxpayers earning \$45,000  
7 34 or more per year but less than \$50,000.

7 35 Current law provides for an early childhood development tax  
8 1 credit equal to twenty-five percent of the first one thousand  
8 2 dollars which the taxpayer has paid to others for each  
8 3 dependent. The credit is limited to taxpayers earning less  
8 4 than \$45,000. A taxpayer claiming the credit cannot also claim  
8 5 the child and dependent care credit. The bill changes the  
8 6 income eligibility limit for the early childhood development  
8 7 tax credit to \$50,000.

8 8 The new income tax rates for tax year 2009 are as follows:  
8 9 (1) on all taxable income from zero through \$1,407, 0.30  
8 10 percent; (2) on all taxable income exceeding \$1,407 but not  
8 11 exceeding \$2,814, 0.59 percent; (3) on all taxable income  
8 12 exceeding \$2,814 but not exceeding \$5,628, 1.95 percent; (4)  
8 13 on all taxable income exceeding \$5,628 but not exceeding  
8 14 \$12,663, 4.18 percent; (5) on all taxable income exceeding  
8 15 \$12,663 but not exceeding \$21,105, 5.42 percent; (6) on all  
8 16 taxable income exceeding \$21,105 but not exceeding \$28,140,  
8 17 5.42 percent; (7) on all taxable income exceeding \$28,140 but  
8 18 not exceeding \$42,210, 5.73 percent; (8) on all taxable income  
8 19 exceeding \$42,210 but not exceeding \$63,315, 6.16 percent; and  
8 20 (9) on all taxable income exceeding \$63,315, 6.98 percent.

8 21 The new income tax rates for tax year 2010 are as follows:  
8 22 (1) on all taxable income from zero through \$1,407, 0.31  
8 23 percent; (2) on all taxable income exceeding \$1,407 but not  
8 24 exceeding \$2,814, 0.60 percent; (3) on all taxable income  
8 25 exceeding \$2,814 but not exceeding \$5,628, 2.0 percent; (4) on  
8 26 all taxable income exceeding \$5,628 but not exceeding \$12,663,  
8 27 4.28 percent; (5) on all taxable income exceeding \$12,663 but  
8 28 not exceeding \$21,105, 5.56 percent; (6) on all taxable income  
8 29 exceeding \$21,105 but not exceeding \$28,140, 5.56 percent; (7)  
8 30 on all taxable income exceeding \$28,140 but not exceeding  
8 31 \$42,210, 5.87 percent; (8) on all taxable income exceeding  
8 32 \$42,210 but not exceeding \$63,315, 6.30 percent; and (9) on  
8 33 all taxable income exceeding \$63,315, 6.98 percent. However,  
8 34 these bracket amounts will be adjusted annually for inflation.

8 35 The bill applies retroactively to January 1, 2009, for tax  
9 1 years beginning on or after that date.